Conference Transcription

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CONFERENCE DETAILS

Conference Date:	6 June 2011
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Chairperson:	Tatiana Zakharova
Speakers:	Dmitry Sokolov Jean-Pascal Duvieusart Maxim Nazimok

Jean-Pascal Duvieusart

Good afternoon or good morning, everybody. Welcome to our first quarterly results following up on our IPO. On our side here from NOMOS we have: Dmitry Sokolov, who will briefly introduce the call in Russian; then myself, Jean-Pascal Duvieusart, the Head of Strategy; and Maxim Nazimok, who is the Deputy CFO, in charge of our planning and controlling. We propose to go briefly through a presentation in about 20 minutes, 25 minutes or so maximum and then dedicate the rest of the time for Q&A.

I leave the word to Dmitry Sokolov.

Dmitry Sokolov

(*Translated text*) Good afternoon, ladies and gentlemen. NOMOS Bank is doing its first investor call in the capacity of a publicly listed entity. It's our first presentation to you after the IPO that we have successfully completed, so we are nervous a bit. I have to say that the IPO that we have finished has been appreciated well in Russia and abroad. As a first nationwide Russian privately owned bank which became public we received a very good publicity. We have become popular and famous. Given that we well remember what we have been telling about the Bank during the roadshow presentations. I guess everyone is very interested to know how we proceed against the strategy that we have presented during the IPO. You will hear about that now.

I'm glad to report to you that we have complied with our strategy in our first quarter results. Our strategy of profitable growth has been progressing successfully. We have progressed gradually on all of the key directions that we have communicated to you earlier. As a result, we saw a growth in business volume and have received the expected profits. Despite the fact that the first quarter in Russia is traditionally a very quiet season we have actively progressed and we've been moving forward and have fulfilled the budgets in the key indicators. And my colleagues will tell about that to you in more detail. And I would like to assure you that we continue moving forward on the directions set. We are well on budget in the second quarter.

Thanks a lot and I will pass the word to my colleagues.

Jean-Pascal Duvieusart

If you go to slide one from the presentation, it's a brief summary of NOMOS as it stands. As Dmitry said, we are the largest listed privately owned bank with a 25% free float. And we are keeping our strategy focussed on three segments, the mid-corporate segment, the small business and the retail segments, with an aim to cover Russia with a focus for the time being on five key markets being Moscow, Tyumen Khanty-Manslysk, St Petersburg, Novosibirsk and Khabarovsk. As you can see on the right of that page, in each of these markets we still see ample room for growth going forward.

Financially over the first quarter our total asset has grown by 7.4% reaching RUB570 billion. Gross customer loan grew by 4.5%, which is faster than the market. Customer accounts were flat. This is a direct result of the fact that in the fourth quarter of 2010 we had a massive inflow of liquidity. And in order to preserve our net interest margin we decided to be more moderate in our acquisition of customer accounts to leave the time to the Bank to digest its additional inflow of liquidity that has proved to be fairly sticky.

Total equity reached end of April RUB61 billion with a total net profit on a consolidated basis of RUB3.2 billion and a net income for the Nomos shareholders of RUB2.5 billion. The net interest margin is up 5.2% which is roughly where it was in 2010 which given the seasonality of the banking business in Russia and the massive increase in liquidity at the end of last year we consider as being a very, very strong result. Cost income ratio was in line with our performance of last year and our long-term guidance. And we have a return on equity for the first quarter of 21.2%.

If you go to page two, you can see here brief overview of the performance of the stock. After the IPO and given the exercise of the over-allotment option we have close to 25% free float which was a good result from the IPO process. PPF and ICT jointly own slightly above 75%, with ICT being the key dominant shareholder with 48% ownership of the Bank. The stock performance compared to the time day of pricing the stock has been doing fairly well compared to the market and compared to its peers. The data you have on the screen as of end of 26 May. If you were to look at the data so far especially today after the results have been announced, I think the performance of the stock would be even better.

On slide four, we wanted to basically summarise the key achievements of the Bank starting from the 1 January 2010 and then show that a bit in history. From a profitability perspective, return on equity went from 12% to 21% and we are confirming our long-term guidance ROE above 20%. From the capital adequacy position we have increased the leverage of the Bank and reduced the capital adequacy ratio from 13.8% to 11.2%.

From a diversification perspective the share of the top 20 borrowers went down from 35% to 26% and we expect this to keep on decreasing gradually as the Bank is increasing its business in the mid corporate segments. And from a development of the customer mix also you can see that we have increased progressively the small business and retail part of the book at the expense of the mid corporate book. We think that these four key dimension of achievements, which are in line with our strategy in our long-term financial targets, are developing fairly nicely.

What have we achieved in 2011? I think here none of the message will surprise those of you that met us during the IPO roadshow. We have a faster than market sustainable growth. We have strong revenue generation and increasing profitability which basically allows us to increase our capital adequacy ratio and capital base and therefore sustain organic growth. We have a good cost income ratio and we keep focussing on that. We have been strengthening the business mix and we will show you more data and evolution of that data compared to end of last year.

We are progressing fairly well with our capture of the synergies linked to the merger with the Bank Khanty-Mansiysk. We are still very well capitalised and the liability side of the balance sheet is developing very nicely with a good liquidity position, also a stable and strong funding base. Overall we keep having a low risk profile with conservative risk management, a well-diversified portfolio and stable asset quality. As I said a few minutes ago we are on track to deliver our 2011 financial guidance.

Page five puts in perspective our performance since 2007 in terms of growth and here I will point out attention to the two lowest bars of the chart that basically show the evolution of the asset, the customer loan, the customer accounts over the last first quarter of this year. And here you can see that from a customer loan perspective we grew by 4.6% and our customer accounts were flat in order to protect our net interest margin.

How does that fare compared to the markets? Our corporate loan grew by 4.2% as I said which compared to market growth of 2.4%. Small business which is one the strategic priority of the Bank is developing very nicely with 9% growth in loans and these are loans which are coming at higher margins than the corporate business. And then retail is also growing at 6.6% which is faster that the market, which was what market showed.

I will now pass the word to Maxim that would speak about profitability and key financial numbers.

Maxim Nazimok

I would start from the bottom right chart on this slide by saying that the return on equity was in line with the prior year ambitious target that we set, it comprised 21.2% return on equity to NOMOS equity holders and we have a very healthy return on assets of 2.4%. Now if you look at composition of this profitability, you can see that in terms of revenue net interest income continues to be the core item in revenue composition being 75% of revenue. It's important to see that the share of fee and commission revenue is growing from 12.5% to 13.9% and the revenue base on annualised basis is growing compared to pro forma 2010.

In terms of operating expense, you see a bit higher growth in expense compared to revenues which is driven by seasonality that Dmitry Sokolov has mentioned earlier. Although we have maintained a very healthy cost income ratio of 44.5% for a universal bank, given the seasonality of it we think we are well in line with the target of 42%, 43% for the year as a whole. In terms of cost of risk, it has reduced from last year to the first quarter of this year from 1.3% to 0.6%. Cost of risk deserves a separate story in this quarter which I will communicate to you in a couple of minutes.

Now, if we look in more detail to the net interest margin, net interest margin as JP said stayed nearly flat having gone from 5.3% to 5.2%. You can see that the ongoing repricing of the asset base and of the liability base is still going on in the balance sheet of the Bank, this is partly a result of the liquidity in flow that we saw. What's important is that the repricing of the liability part of it is going well in line with the repricing of the asset part. For example you see the reduction in cost of retail deposits from 7.9% to 6% just in first quarter 2011. And on the asset side you see a very healthy increase in retail lending rates which is explained by the change in business mix of the retail loan book with consumer loans representing a growing share in the total retail lending.

Now in terms of the business mix it has not changed significantly since 1 January 2011. You see that the corporate banking book is still 73% of the loan book roughly, 50% of our deposits and 50% of our revenues. Corporate banking has generated a healthy 24.5% return on capital in first quarter 2011 versus 23% in 2010. In terms of small business it has demonstrated the fastest growth in terms of the loan portfolio. And its share in the loan book has increased by 0.3% and share of revenues increased by 1%. And small business has demonstrated a very healthy return on capital of 38%.

Retail has been growing also quite nicely mainly in line with the growth of all of the components of the balance sheet of the Bank. The profitability of this business is still behind what we target for this in the medium-term. But the retail business is progressing quite well in terms of refurbrushing the branches, rebranding is going on in the network, an advertising campaign has been launched and we expect to see the results coming in second quarter and onwards. Retail banking continued to generate a very healthy return on capital while keeping a very conservative level of risk. The key source of revenue of investment banking continues to be interest margin both on the inter bank and repo business and on the securities portfolio business. And we have been also seeing quite healthy results on FX conversion operations.

Now the next slide gives you a flavour of what is going on in terms of progressing of integration of the BKM. Out of the main streams that we have set, key work streams that we have formed for that, we would like to point out the results of the retail stream.

With a pre-approved lending programme launched just in January and in late December in Bank of Khanty-Mansiysk, just this programme has generated a RUB3 billion growth in total consumer loans of the group and we see how this progresses gradually. All other streams are performing in accordance with their schedules.

Now have a look on the Bank's capital position. The capital adequacy the Tier 1 improved from 10.6% to 11.2% as of 1 April. It is a result of moderate growth in assets with a very generic and fast growth due to internal capital generation. The 1 April of course does not reflect the results of the IPO and the primary proceeds from the IPO which have been received in May. If we were to calculate pro-forma capital adequacy for the 1 April it would be 12.2% Tier 1 ratio. We are still happy to see that the capital position is sufficient for the organic growth of the Bank in the nearest 20 or so months. And in terms of statutory capital ratios we see the same dynamics.

Now in terms of funding base and liquidity position, the funding structure is very well in line with our own guidance. The wholesale funding is limited to 14% of the total funding. We see a seasonal decrease in the share of customer accounts in total funding as a result of hyper liquidity but it is still above 61% of the total funding. And also it is important that from the diversification side still more than 50% of the deposits is coming from retail and small business block. And we see an ongoing increase in share of current accounts as compared to term deposits in the deposit structure. All of that gives the loans to deposit ratio of 112% as of 1 April which is within the comfort level that we have set for us at below 120%.

Now an important topic here is asset quality. A few trends here, first of all the NPL ratios remain flat with NPLs representing 2.4% of the loan book. We have maintained the same NPL provision coverage at a conservative level of 181%. We did not do any of the write backs of that provisions because we deem that this cushion of 180% is important in maintaining the prudent capital management policy and prudent risk management policy. All of that has resulted in a cost of risk of 0.6%.

Now let me go into some more detail on the technicalities of the loan loss provisions in the Bank's financial statements this quarter. If you remember, on consolidation of Bank of Khanty-Mansiysk we have applied the new IFRS 3 which is a requirement by IFRS since 2010, which prescribes us to net off all of the provisions of the acquired entity against the loan, so we consolidated not the gross loans and provisions but we rather consolidated the net loans as of 1 January 2011.

Now what happens next is that if any of the loans which had either collective or individual provisions historically in the BKM's balance sheet gets repaid after the consolidation, we theoretically in normal accounting conditions will take a provision release. While in this case we had no provisions we have to book this releasing in other line and that's the line called "gain on remeasurement of cash flows on interest bearing assets". This is the technical release of provisions of Bank of Khanty-Mansiysk on all the loans repaid.

Now when the Bank of Khanty-Mansiysk issues new loans they go through a standard provisioning methodology and standard provisioning accounting which means that any new loan gets a provision and this provision is recorded in the traditional line, conventional line that you have been used to which is the "allowance for impairment losses". Effectively, what I am trying to say is that those two lines shall be viewed only on a net basis because as it is presented in the financial statements it is actually gross of the provisions released and provisions created.

Now on the next slide, slide 14, you see the structure of the loan book. We have kept up the diversification of the book and as you have seen on previous slides the concentration ratios went down a bit. Also the related party lending went down a bit in terms of percentage of the loan book. It's now limited to 7.6% of loan portfolio. One important observation is that we have reclassified the loans to investment and asset management company in the accounts using the underlying sector classification. It used to be M&A finance concentrated in just one single sector which did not actually reflect the industry risks that we were taking. We have now classified any of the M&A lending into the industrial risks of the underlying assets. This is probably one change in the presentation you should be aware of.

Now the slide 15 is just a reminder for the medium-term target that we as the Bank has set for us. It's more than 20% of average annual growth and growth faster than the market. You may see that we have well fulfilled that. Cost income ratio in the medium-term target is 42%. We are now in the first quarter standing at 44%. Return on average equity, we are beyond the target with 21.2% return on equity. And Tier 1 ratio is standing now at healthy 11.2% while the target is not to be below 10.5%.

Jean-Pascal Duvieusart

We prefer now to move on to questions.

ACT Operator

Thank you, sir. Ladies and gentlemen, if you would like to ask a question, please press *1 on your telephone. If you wish to cancel this request, please press *2. Your questions will be polled in the order they are received. There will be a short pause whilst participants register for a question.

Our first question comes from Simon Nellis from Citigroup. Please go ahead.

Simon Nellis – Citigroup

Thanks for the call. I have few questions and may be I'll just go through them one by one. The first would be on margins. Can you give us any outlook on how you see margins? And you clearly said that you weren't aggressively trying to attract deposits to help margins, when do you think you're going to hit that comfort level of 120% loan deposit ratio? And what impact is that going to have on your margin? I mean when you hit that level how fast do you think your margin would deteriorate or do you think that other elements like faster retail growth and SME growth will offset that? That would be my first question.

Maxim Nazimok

OK, let's do it one by one. In terms of margins, we were targeting to sustain above 5% margin in 2011 taken as a whole. We are not expecting to hit the comfort level of 120% in terms of loan to deposits ratio because we see a healthy growth in deposit base going forward. The modest increase in deposits in the first quarter was indeed driven by the excess liquidity we have. The second quarter is already more of a balanced picture in terms of loan growth compared to deposit growth.

Speaking about the dynamics of the margins, as you rightfully said, there are two triggers. One is on the margin pressure continuing from the corporate side. On the other side we see a mix change which helps us to sustain the margin with increasing share of small business and retail lending. Overall, we would forecast a flat interest margin for 2011 taken as a whole.

Simon Nellis – Citigroup

Flat relative to first quarter or -?

Maxim Nazimok

Yes.

Simon Nellis – Citigroup

Yes. And just on the retail side, I mean that was the one area where your margins are actually improving. Is that driven by a change in the type of retail loans that you are doing or actually –?

Maxim Nazimok

Yes. I mean, the consumer loans are the key driver for the growth in the retail loan book. And so those loans have considerably higher interest rates and as a result higher margin.

Simon Nellis – Citigroup

Yes. My second question would be on provisioning. Can you give us an idea of what BKM's risk cost was standalone, so we can better understand the provision? Because it seems that there were quite significant recoveries. And do you have any pro forma NPL and provision coverage numbers if you had consolidated BKM the way that we are used to seeing it?

Jean-Pascal Duvieusart

We are not publishing quarterly audited results for BKM separately from the Group. I do not want to go into more detail. But what you have to understand is that what looks like a provisions release on BKM is matched by creation of reserve on BKM as BKM is growing its loan book because –

Simon Nellis – Citigroup

Right.

Jean-Pascal Duvieusart

It is really – you have to look at these two lines and this is the result of IFRS 3 rule which basically force us to decompose something which is fundamentally one process which is as old loans get repaid whatever statistical base or loan specific provision basically taken back and at the same time as you are granting new loans you are basically taking on new provisions on a statistical basis. Now, overall, we see no meaningful difference in the evolution of risk cost of BKM versus NOMOS. Both banks are doing fairly well and we are reconfirming our target of 1% or slightly below risk cost for the year based on developing in our portfolio.

Simon Nellis – Citigroup

That risk cost would include running back any of these, I guess not recoveries but the special line item.

Jean-Pascal Duvieusart

Yes. It's on the net basis.

Simon Nellis – Citigroup

On the net basis.

Jean-Pascal Duvieusart

On the net basis.

Simon Nellis – Citigroup

Can you give any granularity in terms of corporate, SME and retail the progression in risk costs? Are there any interesting developments? Are you seeing big write backs in corporate and offset by higher provisions in retail or something like that?

Jean-Pascal Duvieusart

No. We are not seeing big swings like this. We are seeing risk cost by segments in line with our budget we expect over time as we are moving into cash flow and to have an increase in risk costs in that segment basically. It's difficult to go into the 20% net interest margin business without having a higher risk cost in corporate. But I think we have a plus 5% or plus 6% on one hand and a negative risk cost on the other hand.

Simon Nellis – Citigroup

Right, and my last question will be on costs. As you don't have pro forma numbers for last year what kind of year-on-year costs growth actually are you showing? You have given us cost income ratio guidance but can you give us absolute cost guidance or in the absence of absolute guidance just some indications of what are affecting and driving cost growth this year?

Maxim Nazimok

Since you are targeting to maintain the same cost income ratio roughly the same that we had last year the revenue growth and cost growth –

Simon Nellis – Citigroup

Should be the same, yes.

Maxim Nazimok

It's in the range of 15%, may be a little bit higher.

Simon Nellis – Citigroup

Sorry, range of? I didn't catch that.

Maxim Nazimok

It will be in the range of 15% or maybe slightly above 15% growth.

Simon Nellis – Citigroup

Growth right, absolutely.

Maxim Nazimok

Importantly what we are budgeting for is that the revenue growth will be same as the cost growth.

Simon Nellis – Citigroup

Right, so around 20%, no change there.

Jean-Pascal Duvieusart

No.

Simon Nellis – Citigroup

OK. Thank you very much.

ACT Operator

Thank you. Our next question comes from Bob Kommers from Deutsche Bank. Please go ahead.

Bob Kommers – Deutsche Bank

Hi, good afternoon. Yes, I also had a question regarding BKM. I think you just mentioned that there wasn't a major difference in risk costs between former NOMOS and BKM and yet the profitability of BKM seems to be progressing very positively judging by the minority interest. I was just wondering whether you could shed some lights on the progress at BKM, I think in particular on the margin trends because I think that data you highlighted before was the potential of making BKM more commercial bank. Could you shed some light on the NIM trend at BKM or in more general terms may be what was driving the profit improvement at BKM in the first quarter and whether that's (*Inaudible – multiple speakers*).

Jean-Pascal Duvieusart

Bob, may be one thing is in the increase in the minority interest you have to include not only their profitability of the increase in equity due to the profitability of Bank of Khanty-Mansiysk. But there is approximately RUB300 million, RUB350 million of minority interest in Rapida which is the transaction we have closed in the first quarter of last year and basically adds to the minority interest compared to end of December last year. All of the increase in minority interest is not attributable to the minority interest in BKM. And so therefore the numbers may not look as positive as you may think.

It's a small transaction overall but expressed as a percentage we only bought 51% of Rapida. Rapida being a instant payment system which is doing very well and developing very nicely but is contributing to that increased minority interest.

Overall regarding BKM, what we can say, I think as we said in the road show BKM is a very good bank. It generated return on equity last year of 15%. And at that point in time we had said that we had a budget for BKM 2011 that was aiming at the return on equity higher than its achieved performance in 2010. And we see that performance coming through as we speak and therefore are very comfortable with the performance of BKM.

Bob Kommers – Deutsche Bank

All right and –

Jean-Pascal Duvieusart

It's going to be performing couple of percentage points I think from a guidance perspective over its performance in 2010.

Bob Kommers – Deutsche Bank

Right. How is the NIM developing at BKM? Is that NIM expected to be higher this year than in 2010?

Maxim Nazimok

Bob, as we speak about the first quarter it's being flat but BKM was also affected by this inflow of liquidity in its balance sheet both on the assets and liability side. Though normalised margins, if we take away that excess liquidity would be a bit higher than you saw for the last year.

Bob Kommers – Deutsche Bank

OK.

Maxim Nazimok

Last year was 4.6% so they will be climbing a couple of basis points from there.

Bob Kommers – Deutsche Bank

OK.

Jean-Pascal Duvieusart

I think one thing is important to say and that cuts across both banks in both segments is given the influx of liquidity we have seen we were planning for a slight reduction in net interest margin in the first quarter. We see the first quarter result on the NIM bring a very strong results and going fairly well for the full year results.

Bob Kommers – Deutsche Bank

Regarding the minority interests the RUB300 million that you mentioned from Rapida that's not something recurring, right? That was a one-off big contribution or is this –

Maxim Nazimok

No. That's not a contribution to profits that's contribution to balance sheet minority.

Jean-Pascal Duvieusart

Yes, it's a contribution to balance sheet minority. Basically we bought Rapida, we bought 51% of Rapida, we are consolidating it but we have to be fair to the minority shareholder and give them 49%. Now we hope their share will grow up as Rapida is generating substantial profitability and our share will also grow.

Bob Kommers – Deutsche Bank

Just to come back to the P&L minority interest. Minority interest in the P&L was RUB690 million and that should be almost completely coming from BKM which would mean on an annualised basis that is a significant step up in the profitability of BKM. I just wanted to understand what was driving that and when is that sustainable?

Maxim Nazimok

OK, yes, Bob, that's correct. The profit number for the Bank of Khanty-Mansiysk would be roughly RUB1,315 million for the BKM Group as a whole. Few things on that, they have been quite good in terms of interest margin as I mentioned and they have been doing also a number of arbitrage operation on the inter-bank markets and also putting additional value to their margins. And also the BKM has demonstrated even a slightly better growth rate for both corporate and retail book as we mentioned. For example pre-approved loans type which means that in terms of growth they have been slightly better than NOMOS. There is no one-off on recurring items there.

Bob Kommers – Deutsche Bank

All right. Is this a profitability level that for BKM that we can expect for the full year?

Maxim Nazimok

We will see how it develops. We budgeted for a slightly less number than you saw for the first quarter but we will see. As JP said the return on equity of Bank of Khanty-Mansiysk we expect to be a couple of percentage points above their last year's performance. That's for the year as a whole.

Bob Kommers – Deutsche Bank

OK. But in the first quarter it was much higher, right?

Jean-Pascal Duvieusart

Yes, the first quarter was much higher as you rightfully point out. I think there are guidance for BKM for the full year. It's higher than last year and slightly below 20%.

Bob Kommers – Deutsche Bank

OK. Thank you. And more in generally final question is regarding the merger synergies with BKM. In ruble terms what are the total synergies that you would expect from that transaction and its probably difficult to say but how would that broadly break down into revenues and costs?

Jean-Pascal Duvieusart

OK. We are sticking to the forecast we have given during the IPO road show of 10% of combined net income of the Bank. And the split is 40% on the cost side and 60% on the revenue side. And the layout over time is over three-year with significant part on the cost side coming at the end of the third year as we can integrate the two IT organisations. This process takes longer than the other synergies because a) we first need to acquire the remaining 48% of Bank of Khanty-Mansiysk. And once this is done then the integration of the two IT platforms which will be done on the back of NOMOS IT system which by now is rolled out and centralised within quite some time.

Other synergies are progressing as originally planned. We are having regular synergy review committee. The committee is chaired by Dmitry Sokolov, who is the CEO of the Bank and we have myself a member of that committee and the two CFO and two head of corporate banking being part of the committee.

The spilt of synergies between cost and revenues is slightly different than you would have in Western Europe when you merge two banks. And it is predominantly due to the fact that the two networks are not overlapping. They are complimentary which makes obviously the merger also much more simple from an integration perspective and its kind of a growth merger and not a cost cutting merger.

Bob Kommers – Deutsche Bank

OK. Thanks a lot.

Maxim Nazimok

Thank you.

ACT Operator

Thank you. Our next question comes from Svetlana Kovalskaya from Renaissance Capital. Please go ahead.

Svetlana Kovalskaya – Renaissance Capital

Good afternoon. A couple of questions from me. First of all regarding your loan growth target for this year. Could you please remind us what your guidance is for loan growth overall as well as maybe across segments for 2011? And to what extent do you believe you are on track or maybe ahead of expectations in Q1 2011? That's my first question and I will follow-up later with other questions.

Maxim Nazimok

OK, Svetlana. Our growth targets, first one is a bit generalistic it's to be faster than the market. Now in terms of more detailed guidance we were targeting 30% loan growth overall with corporate book going a bit slower to that roughly in the range of 27%, 28% and small business and retail being closer to 40%. All of that combined together giving a 30% loan growth.

Jean-Pascal Duvieusart

And we are on plan.

Maxim Nazimok

Yes, I mean the Russian banking market we are on plan.

Jean-Pascal Duvieusart

We are on plan. We do not think that for the time being it will be worth, it's appropriate for us to do a new re-forecasting. We will do that later in the summer.

Svetlana Kovalskaya – Renaissance Capital

You will review your forecasting in summer?

Jean-Pascal Duvieusart

Should we do re-forecasting, we'll do that later in the summer. For the time being we have no reason to do re-forecasting.

Svetlana Kovalskaya – Renaissance Capital

OK. And just to follow-up on the same topic. What have you seen so far in Q2 in the first two months for Q2, what kind of growth?

Maxim Nazimok

It is broadly in line with what you saw for the first quarter.

Svetlana Kovalskaya – Renaissance Capital

OK. That's it on the loan growth and let me also follow up on the asset quality. Just for understanding, your net provisioning charge is a sum of two lines was 0.6% in Q1. Your guidance for full year remains at 1%, so it means that you are expecting some acceleration of provisioning in later quarters. Why is that?

Maxim Nazimok

The guidance was formulated as the –

Jean-Pascal Duvieusart

The guidance has always been formulated being below 1%.

Svetlana Kovalskaya – Renaissance Capital

Below 1%. I mean just my question is, is there anything one-off in this 0.6%? Is it artificially low for any particular reason or is it like a normal provisioning charge with no real one-off element in it?

Maxim Nazimok

I have to say we had a number of problem loans repaid on the BKM side which has driven this a bit below what we have budgeted but it's not a big one off, it's rather a small one-off. Generally in the budget we have this more or less balanced between quarters in terms of the provision charges.

Svetlana Kovalskaya – Renaissance Capital

OK. That's clear. Thank you very much and my final question will be on costs. Just to clarify, I think you said something about seasonality of costs and that in Q1 cost to income was 44% but you still target 42% for full year. Could you elaborate a little bit on that? I already thought –

Jean-Pascal Duvieusart

Basically we increase the salary in January for the year to come. And therefore we have done that but it takes time for the assets side of the balance sheet to grow and catch up with that increase you see in base salary in the first quarter. Now we don't increase base salary every quarter, so therefore you do the increase in the first quarter and then over time as the year progress and the assets of the Bank grow that cost base as a percentage goes down.

Svetlana Kovalskaya – Renaissance Capital

OK. And just for my understanding as we haven't yet seen full year of quarterly numbers from NOMOS Bank, we are just about to see it for the first time in 2011. What should we generally expect? Should we generally expect some sort of pick up in Q4 as many banks have because of bonuses, because of that sort of seasonality or do you have a more like stable costs quarter on quarter?

Maxim Nazimok

I have to say we are very strictly applying IFRS in terms of bonus accruals which means that we are taking bonus accruals every quarter. And then we are just slightly adjusting them based on the actual payments or actual performance against KPIs. Therefore I would not expect any significant pick up just on the bonus side of it while if you keep in mind that we have new branches opening coming more to the second and third quarter on the plan so there might be some cost pick up on that side.

Svetlana Kovalskaya – Renaissance Capital

OK. Yes, I think that's very clear. Thank you very much.

ACT Operator

Thank you. Once again ladies and gentlemen, if you would like to ask a question, please press *1 on your telephone.

Jean-Pascal Duvieusart

We have Simon coming back.

ACT Operator

We have a follow-up question from Simon Nellis. Please go ahead.

Simon Nellis – Citigroup

Yes, I am back, hi. I didn't quite catch what you had said to Bob about minority interests. Is it right that you said that there is RUB350 million of minority interests coming from Rapida in the P&L or what was that? Was that in the balance sheet?

Jean-Pascal Duvieusart

No, it's in the balance sheet.

Simon Nellis – Citigroup

In the balance sheet. How much was coming through the P&L? Very little, right?

Maxim Nazimok

On Rapida side none because the acquisition took place in March.

Simon Nellis – Citigroup

Right, it's right. OK, right got it. Yes, and just on the Repo book I see that it is more of less flat. What is the strategy there? I had some questions from investors they are wondering what percentage of that book is in one way related party?

Maxim Nazimok

There is not much related and I believe most of that is done with marketable securities with market come to parties. And if you saw that from the accounts, the absolute volume of this book stays flat. It has been partially driven up by the end of 2010 by this excess liquidity. And we used the Repo book as a profitable placement of short-term resources with that we had on the liability side. As liquidity goes down, NOMOS expect this either to stay flat in absolute terms or may be go down a bit.

Simon Nellis – Citigroup

Right, OK. How quickly are you able to actually sell the underlying collateral if there is big market sell off? I think most of the collateral is equity, is this correct?

Maxim Nazimok

There is equity book, yes. We are observing very good haircuts on that and in terms of technicalities of this since this is a very – it's a market repo so the securities are on NOMOS account. And the volume of shares held in any case is not representing any significant percentage of the free float of the issuer which means that we have full ability to close the deal within a day.

Simon Nellis – Citigroup

Right. One last question since you didn't mention it I guess I probably already know the answer but, is there an opportunity to buy the rest of BKM and is that still kind of not really an issue?

Jean-Pascal Duvieusart

I wouldn't use that as an issue if I may. The government of the autonomous district of Khanty-Mansiysk has put in its budget law which has been approved by the regional parliament that they intend to privatise the remaining stake in Khanty-Mansyisk in 2011.

Simon Nellis – Citigroup

I see.

Jean-Pascal Duvieusart

That are all the facts I can tell you. We are having discussions with them, it should happen this year or early next year but if they respect the law it should happen this year.

Simon Nellis – Citigroup

Right. I mean there are also non-government shareholders, right? Are you also in discussions with them?

Jean-Pascal Duvieusart

There is a bank which is government owned Eurasian Bank which owns 2%. Once we bought the remaining stake of the region in the privatisation process we would be obliged to do a squeeze out.

Simon Nellis – Citigroup

Right, OK.

Jean-Pascal Duvieusart

And we will squeeze them out.

Simon Nellis – Citigroup

Right. It sounds like if they go according to plan you will probably be buying the stake sometime this year?

Jean-Pascal Duvieusart

Yes.

Simon Nellis – Citigroup

Got you. OK. Thank you.

ACT Operator

Thank you. Once again ladies and gentlemen, as a reminder if you would like to ask a question, please press *1 on your telephone.

Once again ladies and gentlemen if you would like to ask a question, please press *1 on your telephone.

Jean-Pascal Duvieusart

We have Bob.

ACT Operator

We have next question from Bob Kommers from Deutsche bank. Please go ahead.

Bob Kommers – Deutsche Bank

Yes, hi. Following upon on the discussion on BKM. I just wondered how you feel now about the capital position and whether you think you can buy out the minorities without any new equity?

Jean-Pascal Duvieusart

Thanks for the question Bob. As we said in the IPO road show we will have to come back to the capital markets to complete the transaction of the remaining 48% in Bank Khanty-Mansyisk. And we will do this once we have full visibility on the price we are expected to pay to buy the bank so that we can go to the market with a very, very clear deal.

Bob Kommers – Deutsche Bank

OK, thanks. Thanks for clarifying.

ACT Operator

As a final reminder ladies and gentlemen, if you would like to ask a question, please press *1 on your telephone.

We have a follow-up question again from Simon Nellis from Citigroup. Please go ahead.

Simon Nellis – Citigroup

Hi, sorry, this is really my last question. If you did take full control of BKM do you think you would be able to accelerate the delivery of the synergies or would it kind of just go on track as you planned?

Jean-Pascal Duvieusart

Look, the synergies can broadly be defined into revenues, cost of funding and operational cost run. On the revenue side we are moving forward as if we had full control of the bank, the management of BKM is extremely cooperative, as we said we know them very well and they are looking as this being an attractive future for them. On the cost of funding we are already capturing some of this, for example we are leveraging our excess liquidity at enormous level to basically provide funding to BKM at a cheaper rate. We are already doing that.

The crux of the question is regarding the operation cost. Here I have to say that committing to merging two IT organisations in two different time zones from two different banks in less than two years would be optimistic and therefore I don't think we would accelerate that part of the synergy capture plan.

Simon Nellis – Citigroup

Right. Very clear, thanks.

ACT Operator

Thank you. There appear to be no further questions sir, please continue with any other points you wish to raise.

Jean-Pascal Duvieusart

Thanks a lot to all of the participants. Thanks for the questions. I think as we said we are delivering on our key financial targets as we had said we would and we are moving forward with our strategy of profitable growth. We will be in London from tomorrow until Thursday to meet some of you and some of the investors. If some of you would like to attend some of the meetings, please feel free to reach out to Tatiana Zakharova whose name is in our website of the bank.